VZCZCXRO4174
RR RUEHDA
DE RUEHAK #0313/01 0580542
ZNR UUUUU ZZH
R 270542Z FEB 09
FM AMEMBASSY ANKARA
TO RUEHC/SECSTATE WASHDC 8922
INFO RUEHDA/AMCONSUL ADANA 3641
RUEHIT/AMCONSUL ISTANBUL 5441
RUEATRS/TREASURY DEPT WASHDC

UNCLAS SECTION 01 OF 02 ANKARA 000313

SENSITIVE
SIPDIS

TREASURY FOR JASON WEISS
EEB FOR ANDREW SNOW

E.O. 12958: N/A
TAGS: ECON EFIN TU
SUBJECT: TURKEY: PARLIAMENT PASSES CRISIS RESPONSE PACKAGE

REF: ANKARA 297

¶1. (SBU) Summary. Parliament approved a 111-page crisis response package on February 18 that amends existing tax, social security and incentive laws. The focus of the package is on preventing further increases in unemployment and extending existing tax incentives. Among its features, the law increases the GOT-funded "shortened employment" payments by 50% and extends the payment period from three months to six. The goal is to use Unemployment Fund money to supplement the wages of workers at companies that have reduced their operating hours. The estimated cost of this arrangement is TL 2.4 billion (USD 1.5 billion, or 0.24% of GDP). The law needs to be signed by the President to enter into force, and several portions will require additional implementing regulations or Council of Ministers decisions. Local analysts were unimpressed, saying this package has been under discussion for months and falls short of the needs of the private sector, which is suffering from lack of demand. The measures also are likely to widen the gap between the negotiating positions of the GOT and the IMF over fiscal issues. End summary.

¶2. (U) The Turkish Parliament approved a 111-page economic stimulus law on February 18, amending several existing tax, social security, and incentive laws. The law is intended to:

-- accelerate economic development and decrease regional developmental disparities by supporting targeted, sector-based incentives;

-- register economic activities and facilitate tax and social security amnesties for those moving into the formal sector;

-- facilitate taxation of trade;

-- expand the use of e-government and e-trade programs; and

-- encourage investment.

¶3. (U) Specific tax measures include:

-- decreasing the value-added tax (VAT) on Internet communications from 15% to 5%;

-- authorizing the Council of Ministers to reduce corporate taxes by 90% and to reduce the participation rate by up to 45% for large-scale investment projects (exceeding TL 50 million);

-- authorizing the GOT to reduce some corporate taxes on investment and to cut taxes on textile and clothing manufacturers if they move their operations to certain cities;

-- tax and fine amnesties for drivers of older vehicles (see

reftel); and

-- extending the duration of the "shortened employment payment" to 6 months from 3 months and increasing the benefit by 50%. This program uses the Unemployment Fund to pay a portion of the wages of workers at companies that have had to reduce operating hours because of the crisis. This encourages the companies to retain employees but reduces the associated labor cost. The hope is that it will limit the rise in unemployment. The estimated cost of this measure is TL 2.4 billion.

¶4. (SBU) The package also extends existing investment incentives through the end of 2009 and reduces corporate taxes, labor costs, and energy costs for companies investing in less-developed parts of Turkey, such as the East and Southeast. Tax and labor reductions for R&D companies were also extended. Finally, the law created a new investment incentive system through which the Council of Ministers will be able to support specific investments based on the needs and capacities of certain regions and provinces. The Council will group provinces based on their socio-economic development and per capita income, then determine the sectors in need of investment and set targets for investment and employment aggregates in this area. (Comment: This strategy is a part of a large economic survey recently conducted by the Ministry of Industry and Commerce, which aimed to draw an "economic map" of the country. Although it is being packaged as a stimulus measure, the GOT had already planned to implement the system before the crisis began. End comment.)

¶5. (SBU) Murat Ucer from Global Source and Baturalp Candemir

from EFG Securities in Istanbul dismissed the measures as oriented toward the March local elections rather than the crisis, with the focus on avoiding unemployment and targeting the Southeast. Vural Kural, a former Treasury official and now senior economic advisor to the Union of Chambers and Commodity Exchanges of Turkey (TOBB) told Econoffs that this law has been under consideration since the beginning of 2008, well before the crisis hit Turkey. He noted that another set of bills targeting the automotive, textile, contracting, iron and steel, maritime, and tourism sectors are still being designed. He was skeptical, however, that these bills would do much to meet the needs of the real economy, as the GOT is focusing on cushioning the shock of the crisis rather than stimulating new demand. Further widening the deficit through higher spending and reduced revenues is also unhelpful in the context of the expected IMF deal, as it will further widen the gap between the negotiating positions of the IMF and GOT.

Visit Ankara's Classified Web Site at
http://www.intelink.sgov.gov/wiki/Portal:Turk ey

Jeffrey